



May 20, 1997

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
Post Office Box 25165 — MS 3101
Denver, CO 80225-0165



Sun Company, Inc.
Ownership and
Payment Administration
PO Box 2039
Tulsa OK 74102-2039

Subject: Proposed Rule, Department of the Interior, Mineral Management Service

30 CFR, Parts 206 and 208; 62 FR 3742

Establishing Oil Value for Royalty Due on Federal Leases and on Sale of Federal Royalty Oil

Published January 24, 1997

Dear Mr. Guzy:

Sun is providing the following comments in response to the Mineral Management Service notice of proposed rulemaking dated January 24, 1997, regarding the subject. Sun is an independent gatherer, marketer, and refiner of crude oil and purchases significant volumes in Oklahoma, Texas, Louisiana, New Mexico, Michigan, and other states. Sun also operates four (4) refineries; crude oil gathering lines and crude and product pipelines throughout the United States.

Sun does not own or lease any crude oil producing properties, holds no federal leases, and no operating interests in any crude oil or natural gas production. Since Sun's Exploration and Production division was "spun off" as an independent company (Oryx) in 1988, there remain no related ownership interests, or common ownership of any kind. Consequently, Sun provides these comments as a third party purchaser/refiner of crude oil. Sun buys and sells crude oil in the course of supplying its refineries and as a crude marketer to third parties. Sun, operating as a third party purchaser, often pays federal royalties as a "designee" on behalf of lessees or operators from whom Sun purchase crude. And Sun obviously buys and sells crude oil in the course of supplying its refineries.

Even though Sun does not produce crude oil, Sun believes the proposed rule will have an impact on our business and the price Sun pays for crude because of Sun's activities as a designee, as well as the exchange contracts that must be entered into in the course of our business.

As a third party purchaser only, Sun considers all its transactions "arms length" in the most basic sense. Sun competes with hundreds of other crude oil purchasers for the barrels Sun purchases and has no economic interest in reducing federal royalty income, yet it would appear that we are going to have to go through the additional burden and expense of valuing oil based on a relationship to the NYMEX even though Sun has no integrated producing activities.

Sun feels this rule is overbroad in setting prices for third party purchasers who don't have integrated exploration and production, and fails to correctly distinguish what are clearly "arms length" transactions. Sun also appears to be subject to many of the provision of the rules for federal lessees and operators on federal lands only because of its role as a designee which also demonstrates that the proposed rule goes far beyond just correcting possible problems with federal lessees who are integrated companies.

Sun, having experience both with the NYMEX and with pricing oil in the field, does not believe that there is an automatic relationship between the NYMEX price for a general crude type and the value of crude at a specific producing lease. Sun provides numerous services, besides strictly the gathering and transportation, to get the oil to a trade point. At the trade point, due to the services provided, it is valued on a different basis than it would be in the field, and the valuation would be further altered at the New York Mercantile Exchange.

Sun joins several other associations and industry groups in suggesting that the MMS sell their oil in kind much as many State agencies do currently. The MMS would thus be assured of getting the best price in the marketplace rather than adding a burdensome and administratively costly artificial pricing scenario that will just expand the current regulatory burden.

Sun has the following specific comments in regard to the regulation and would ask that you consider these in both the final version of the regulation as well as in possibly expanding the time to arrive at a more reasonable valuation process.

1 — Sun is not clear on whether a designee is always equivalent to a lessee for purposes of this rule, if so, we believe that is over broad in the extreme since a company such as Sun would have no federal production or federal leases.

2 — If a designee is in the same position as a federal lessee or operator on federal lands, we will not have in our possession many of the title documents needed to determine if Sun was subject to certain provisions of the rule and that would make compliance difficult.

3 — Sun believes that payment services, while perhaps the lessee's obligation, are a service legitimately provided by many purchasers and as a result, these activities should be allowed to earn a return in the marketplace. That does not appear to be the case under this rule.

4 — Aside from payments, there are numerous other services provided by a purchaser including accumulation of volumes, inventory management and supply management. These activities also need to earn an adequate return that does not seem to be provided for the proposed rule.

5 — As mentioned above, Sun also believes these rules are burdensome in the extreme administratively. It would appear that Sun would have to set up a separate pricing category for every lease that involves federal royalty based on transportation and other costs relative to the NYMEX. Sun's system is currently not set up in that fashion and the cost to revise Sun's systems would be very expensive, as well as the additional personnel needed to monitor the proper filling out of forms and the additional information requirements from the MMS.

6 — It appears the rate of return generally allowed under the statute is much less than a publicly traded corporation is expected to deliver to it's shareholders.

7 — It is not apparent to Sun from the regulations how gas condensate will be priced. It is also not clear how Sun will handle transportation from a point on the pipeline to the aggregation point if we do not enter "at the beginning of the pipeline".

8 — Sun is not clear on how gravity banks will be provided for in this rule and that is an activity that is fairly common in the Gulf Coast.

Again, we strongly urge the MMS to consider selling it's oil in kind as an alternative to a more complex and burdensome regulation, but at a minimum we would urge that more time and consideration be given to improving the proposed regulation through additional industry for input.

Sun appreciates the ability to comment on this proposed rule and would be happy to answer any questions or provide further information.

Sincerely,



E. G. Koelling
Manager